

Katy Christian Ministries

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

Katy Christian Ministries

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2017 and 2016	2
Statement of Activities for the year ended December 31, 2017	3
Statement of Activities for the year ended December 31, 2016	4
Statements of Cash Flows for the years ended December 31, 2017 and 2016	5
Statement of Functional Expenses for the year ended December 31, 2017	6
Statement of Functional Expenses for the year ended December 31, 2016	7
Notes to Financial Statements for the years ended December 31, 2017 and 2016	8

Independent Auditors' Report

To the Board of Directors of
Katy Christian Ministries:

We have audited the accompanying financial statements of Katy Christian Ministries, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Katy Christian Ministries as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 21, 2018

Katy Christian Ministries

Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,010,861	\$ 262,460
Government grants receivable	56,688	79,501
Prepaid expenses and other assets	9,121	7,395
Food pantry inventory	79,726	83,077
Resale shop inventory	31,164	36,547
Property, net (<i>Note 2</i>)	<u>75,216</u>	<u>49,329</u>
TOTAL ASSETS	<u>\$ 1,262,776</u>	<u>\$ 518,309</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 72,033	\$ 58,419
Deferred revenue	<u>16,100</u>	<u>12,016</u>
Total liabilities	<u>88,133</u>	<u>70,435</u>
Net assets:		
Unrestricted	625,906	372,632
Temporarily restricted (<i>Note 4</i>)	<u>548,737</u>	<u>75,242</u>
Total net assets	<u>1,174,643</u>	<u>447,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,262,776</u>	<u>\$ 518,309</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Resale shop revenues:			
In-kind contributions of resale shop inventory (Note 7)	\$ 691,788		\$ 691,788
In-kind cost of goods sold	(697,172)		(697,172)
Sales of donated items	<u>659,048</u>		<u>659,048</u>
Net revenue from resale shops	653,664		653,664
Contributions	453,162	\$ 1,059,306	1,512,468
In-kind food donations (Note 7)	1,698,352		1,698,352
Other in-kind contributions (Note 7)	57,623		57,623
Special event	136,939		136,939
Cost of direct donor benefits	(25,249)		(25,249)
Government grants (Note 5)	314,358		314,358
Other revenue (Note 9)	45,401		45,401
Loss on disposal of assets (Note 9)	<u>(17,953)</u>		<u>(17,953)</u>
Total revenue	3,316,297	1,059,306	4,375,603
Net assets released from restrictions:			
Program expenditures	<u>585,811</u>	<u>(585,811)</u>	
Total	<u>3,902,108</u>	<u>473,495</u>	<u>4,375,603</u>
EXPENSES:			
Program services:			
Food Pantry	1,788,720		1,788,720
Resale Shop	504,292		504,292
Social Services	609,422		609,422
Domestic Abuse Center	191,616		191,616
Sexual Abuse Center	<u>164,509</u>		<u>164,509</u>
Total program services	3,258,559		3,258,559
Management and general	236,440		236,440
Fundraising	<u>153,835</u>		<u>153,835</u>
Total expenses	<u>3,648,834</u>		<u>3,648,834</u>
CHANGES IN NET ASSETS	253,274	473,495	726,769
Net assets, beginning of year	<u>372,632</u>	<u>75,242</u>	<u>447,874</u>
Net assets, end of year	<u>\$ 625,906</u>	<u>\$ 548,737</u>	<u>\$ 1,174,643</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Resale shop revenues:			
In-kind contributions of resale shop inventory (Note 7)	\$ 627,789		\$ 627,789
In-kind cost of goods sold	(621,388)		(621,388)
Sales of donated items	<u>627,791</u>		<u>627,791</u>
Net revenue from resale shops	634,192		634,192
Contributions	207,472	\$ 238,623	446,095
In-kind food donations (Note 7)	743,588		743,588
Other in-kind contributions (Note 7)	48,045		48,045
Special event	112,666		112,666
Cost of direct donor benefits	(15,603)		(15,603)
Government grants (Note 5)	269,011		269,011
Gain on sale of property	<u>7,186</u>	<u> </u>	<u>7,186</u>
Total revenue	2,006,557	238,623	2,245,180
Net assets released from restrictions:			
Program expenditures	<u>172,337</u>	<u>(172,337)</u>	<u> </u>
Total	<u>2,178,894</u>	<u>66,286</u>	<u>2,245,180</u>
EXPENSES:			
Program services:			
Food Pantry	739,203		739,203
Resale Shop	512,969		512,969
Social Services	199,140		199,140
Domestic Abuse Center	183,959		183,959
Sexual Abuse Center	<u>147,106</u>		<u>147,106</u>
Total program services	1,782,377		1,782,377
Management and general	190,392		190,392
Fundraising	<u>113,897</u>		<u>113,897</u>
Total expenses	<u>2,086,666</u>		<u>2,086,666</u>
CHANGES IN NET ASSETS	92,228	66,286	158,514
Net assets, beginning of year	<u>280,404</u>	<u>8,956</u>	<u>289,360</u>
Net assets, end of year	<u>\$ 372,632</u>	<u>\$ 75,242</u>	<u>\$ 447,874</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statements of Cash Flows for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 726,769	\$ 158,514
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	8,428	8,949
Loss on disposal of assets	17,953	
Changes in operating assets and liabilities:		
Government grants receivable	22,813	(34,397)
Prepaid expenses and other assets	(1,726)	8,634
Food pantry inventory	3,351	(83,077)
Resale shop inventory	5,383	(6,401)
Accounts payable and accrued liabilities	13,614	28,798
Deferred revenue	4,084	2,016
Net cash provided by operating activities	<u>800,669</u>	<u>83,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	<u>(52,268)</u>	<u>(32,357)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable		<u>(11,395)</u>
NET CHANGE IN CASH	748,401	39,284
Cash, beginning of year	<u>262,460</u>	<u>223,176</u>
Cash, end of year	<u>\$ 1,010,861</u>	<u>\$ 262,460</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2017

	FOOD PANTRY	RESALE SHOP	SOCIAL SERVICES	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 1,719,735		\$ 413,890	\$ 15,568	\$ 15,234			\$ 2,164,427
Salaries and related benefits	32,121	\$ 331,501	175,523	153,669	124,695	\$ 149,396	\$ 69,614	1,036,519
Rent	25,832	102,054	8,815	5,895	5,895	8,832	4,967	162,290
Supplies	1,539	4,176	1,993	1,736	3,044	17,353	31,918	61,759
Professional services			195	1,266	1,266	16,473	40,965	60,165
Computer	1,108	296	1,108	1,333	1,283	17,246		22,374
Insurance	318	10,344	1,927	963	1,927	2,425	1,364	19,268
Utilities	3,123	9,813	809	812	755	1,487	837	17,636
Bank and credit card fees	53	10,788	67	13		3,426	1,594	15,941
Telephone	1,332	3,523	1,332	3,616	3,185	653	367	14,008
Auto and truck	615	10,669		40		849		12,173
Trash		10,226				1,447		11,673
Mileage reimbursement	43	551	2,176	2,834	3,713	1,370		10,687
Repairs and maintenance	1,337	3,189	721	1,040	1,040	3,013		10,340
Depreciation	1,377	4,239	770	227	631	1,092	92	8,428
Staff training				2,485	1,565	2,747		6,797
Rental – storage		96	96	96	96	359		743
Security	125	499						624
Other	62	2,328		23	180	8,272	2,117	12,982
Total expenses	<u>\$ 1,788,720</u>	<u>\$ 504,292</u>	<u>\$ 609,422</u>	<u>\$ 191,616</u>	<u>\$ 164,509</u>	<u>\$ 236,440</u>	<u>\$ 153,835</u>	3,648,834
In-kind cost of goods sold								697,172
Cost of direct donor benefits								25,249
Total								<u>\$ 4,371,255</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Statement of Functional Expenses for the year ended December 31, 2016

	FOOD PANTRY	RESALE SHOP	SOCIAL SERVICES	DOMESTIC ABUSE CENTER	SEXUAL ABUSE CENTER	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Direct assistance	\$ 673,606		\$ 94,842	\$ 12,233	\$ 12,515			\$ 793,196
Salaries and related benefits	36,291	\$ 347,644	88,047	148,547	107,466	\$ 123,644	\$ 41,215	892,854
Rent	19,694	87,284	6,849	5,132	5,132	12,822	4,274	141,187
Supplies	1,796	7,510	1,642	3,671	3,994	3,629	25,743	47,985
Professional services		14,000			2,000	17,331	36,748	70,079
Computer	1,361	889	1,386	1,766	1,448	4,595		11,445
Insurance	1,028	8,604	813	813	813	4,356		16,427
Utilities	2,311	8,939	802	744	752	1,026		14,574
Bank and credit card fees	56	8,357	76	8	3	1,494	859	10,853
Telephone	1,452	2,783	1,452	3,723	3,736	1,454		14,600
Auto and truck	515	11,037		10		31		11,593
Trash		8,622						8,622
Mileage reimbursement	332	248	1,447	2,631	2,296	758		7,712
Repairs and maintenance	271	2,186	76	101	60	2,744		5,438
Depreciation	340	3,200	1,096	1,055	1,255	1,748	255	8,949
Staff training				2,909	2,297	906		6,112
Rental – storage		412	412	412	412	1,427		3,075
Security	108	351	35	35	35	35		599
Interest						49		49
Office furniture and equipment			144		2,712	330		3,186
Other	42	903	21	169	180	12,013	4,803	18,131
Total expenses	<u>\$ 739,203</u>	<u>\$ 512,969</u>	<u>\$ 199,140</u>	<u>\$ 183,959</u>	<u>\$ 147,106</u>	<u>\$ 190,392</u>	<u>\$ 113,897</u>	2,086,666
In-kind cost of goods sold								621,388
Cost of direct donor benefits								15,603
Total								<u>\$ 2,723,657</u>

See accompanying notes to financial statements.

Katy Christian Ministries

Notes to Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Katy Christian Ministries (KCM) is a nonprofit corporation supported by member churches in the Katy area to provide services to those in need in the Katy/West Houston area. Its mission is to address the needs of families and individuals who find themselves in temporary crisis and in need of assistance to maintain self-sufficiency and avoid homelessness.

KCM provides Christ-centered services through the following programs:

- The *Food Pantry* supplies non-perishable food, personal care items, and fresh produce from yard gardeners, local farmers and the KCM Community Garden.
- The *Resale Shop* sells donated goods to provide a low-cost source of clothing, furniture, books, toys, and household goods to the community and provides certain goods free of charge to individuals and families in KCM programs.
- *Social Services* provides referrals to various support and services in the community plus direct assistance including rent/mortgage assistance, utilities, and school supplies.
- The *Domestic Abuse Center* provides emergency shelter referrals or placement; accompaniment to hospitals, courts and law enforcement agencies; and various related support and advocacy services.
- The *Sexual Abuse Center* provides counseling and support services to those affected by sexual abuse.

Federal income tax status – KCM is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Food pantry inventory – The estimated fair value of food donated is based on an average fair value per meal determined by weighing the amount of food donated and converting the number of pounds to the number of meals using a factor of 1.2 pounds per meal. The value of the meals is calculated at a standard per meal rate determined by a national food bank.

Resale shop inventory is carried at the lower of cost or market. The majority of items sold in the KCM resale shop are received as in-kind contributions from the general public. The fair value of these contributions is based on the estimated sale price of each item and is recognized in the financial statements as in-kind contributions.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Generally, acquisitions of property in excess of \$500 are capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 40 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.

- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Resale shop sales are recognized as revenue at the time of sale.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support.

Donated materials and services – Donated materials are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have contributed significant time in connection with programs, administration, and fundraising for which no amount has been recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

Government grants revenue is recognized when the related services are provided.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. KCM is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. KCM plans to adopt this ASU for its fiscal year ending December 31, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – PROPERTY

At December 31, 2017 and 2016, property consists of various office equipment, net of accumulated depreciation, of approximately \$156,000 and \$242,000, respectively.

NOTE 3 – NOTES PAYABLE

KCM has a \$50,000 revolving line of credit with a bank, interest at 3.25% and monthly minimum payments the greater of 3% of the balance or \$150. The line of credit had no balance at December 31, 2017 and 2016.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Emergency disaster relief	\$ 497,446	\$ 26,171
Emergency disaster relief – case worker salaries	39,329	
School supplies	11,962	11,365
Director of communication salaries		17,333
Capacity building		10,000
Rent/mortgage assistance		6,528
Professional development		<u>3,845</u>
Total temporarily restricted net assets	<u>\$ 548,737</u>	<u>\$ 75,242</u>

NOTE 5 – GOVERNMENT GRANTS

KCM receives funding through contracts with federal and state governmental agencies. Government grants require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of noncompliance by KCM with the terms of the contracts. Management believes such disallowances, if any, would not be material to KCM's financial position or changes in net assets.

NOTE 6 – COMMITMENTS

Lease commitments – KCM leases office and retail space and equipment under noncancelable operating lease agreements. Related lease expense of approximately \$162,000 and \$144,000 was recognized during 2017 and 2016, respectively. Future minimum lease payments at December 31, 2017 are due as follows:

2018	\$ 136,677
2019	137,679
2020	139,873
2021	139,124
2022	<u>34,781</u>
Total	<u>\$ 588,134</u>

NOTE 7 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2017</u>	<u>2016</u>
Food Pantry	\$ 1,698,352	\$ 743,588
Resale Shop inventory	691,788	627,789
Direct assistance food/clothing	42,043	30,258
Other	<u>15,580</u>	<u>17,787</u>
Total	<u>\$ 2,447,763</u>	<u>\$ 1,419,422</u>

NOTE 8 – CONTRIBUTION CONCENTRATION

Contributions from three donors totaled approximately \$922,000 or 61% at December 31, 2017.

NOTE 9 – HURRICANE HARVEY

In 2017, as a result of Hurricane Harvey, KCM received business interruption insurance proceeds of \$45,401 and recognized a loss of \$17,953 on disposal of damaged furniture and equipment.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 21, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
